

Message Text

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ACTION EUR-12

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INFO AMEMBASSY BONN
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USMISSION EC BRUSSELS

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E.O. 11652: N/A
TAGS: EFIN, UK
SUBJECT: EXPORT CREDIT IN THE MINI -BUDGET

1. CHANCELLOR HEALEY'S MINI-BUDGET POINTED TO CHANGES
IN THE PROVISION OF EXPORT CREDIT WHICH ARE FORECAST TO
SAVE THE GOVERNMENT 100 MILLION IN 1977/78. IT IS
PROPOSED THAT THE CLEARING BANKS WILL "FINANCE FROM THEIR
RESOURCES AN ADDITIONAL 100 MILLION POUNDS OF FIXED RATE
STERLING BUSINESS IN EACH OF THE NEXT TWO YEARS." THIS
MEANS THAT THE BANKS WILL NOT REFINANCE THE CREDIT, AS IS
THE CASE WITH A GREAT DEAL OF NORMAL EXPORT CREDIT, WITH
THE GOVERNMENT'S EXPORT CREDIT GUARANTEE DEPARTMENT
(ECGD). UNDER THIS PROPOSAL THE GOVERNMENT WOULD PAY OUT
LESS IN REFINANCING THE CREDIT BUT APPARENTLY MORE IN THE
INTEREST RATE SUBSIDIES THAT THE ECGD PAYS THE CLEARING
BANKS IN EXPORT CREDIT WHICH THE ECGD DOES NOT TAKE UP.
THE CHANCELLOR DID NOT IN HIS MESSAGE GIVE SPECIFICS ON
THE PROGRAM BEYOND SAYING: "THE REFINANCING BY THE GOV-
ERNMENT OF FIXED RATE CREDIT FOR EXPORTS AND SHIPBUILD-
ING IMPOSES A MAJOR CHARGE ON PUBLIC EXPENDITURE AND THE
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PAGE 02 LONDON 20291 152004Z

PSBR WHICH THREATENS TO EXCEED PREVIOUS FORECASTS. PART-

LY TO DEAL WITH THIS, I HAVE ASKED THE CLEARING BANKS TO FINANCE FROM THEIR OWN RESOURCES AN ADDITIONAL L00 MILLION POUNDS OF FIXED RATE STERLING BUSINESS IN EACH OF THE NEXT TWO YEARS AND I AM GLAD TO SAY THAT THEY HAVE AGREED TO DO SO. WE BELIEVE THAT BY FUNDING MEDIUM AND LONG TERM EXPORT CREDIT IN FOREIGN CURRENCY INSTEAD OF IN STERLING WE CAN REDUCE THE BURDEN WHICH EXPORT CREDIT IMPOSES ON PUBLIC EXPENDITURE, THE PSBR AND THE BALANCE OF PAYMENTS. WE ARE THEREFORE TAKING STEPS TO ENCOURAGE THE USE OF FOREIGN CURRENCY FINANCING AND TO CONTROL THE RATE AT WHICH NEW OFFERS OF FIXED RATE STERLING FINANCE WILL BE APPROVED BY ECGD. ALL THESE MEASURES WILL REDUCE EXPENDITURE ON REFINANCING AND TTGETHER PRODUCE A NET SAVING OF 100N 1977/78 AND 200 MILLION POUNDS IN 1978/79, BELOW THAT SHOWN IN CMND. 6393. WE ARE AWARE OF THE CONCERN OF INDUSTRY ABOUT THE FUTURE OF THE COST ESCALATION SCHEME WHICH, AS MATTERS STAND, IS DUE TO END IN MARCH 1977. WE NOW PROPOSE THAT IT SHOULD BE CONTINUED FOR A FURTHER YEAR. THE NECESSARY DRAFT ORDER WILL BE LAID BEFORE THE HOUSE IN DUE COURSE."

ARMSTRONG

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